RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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February 8, 1984 **LETTER 880**

Jan 27 DJIA 1230.00; PTI 1773; A-D Ratio -15.93
Feb 3 DJIA 1197.03; PTI 1765; A-D Ratio -16.69

QUESTION: Russell, the D-J Industrial and Transportation Averages have broken below their December lows. Isn't that a Dow Theory bear signal?

Answer: According to Dow Theory a bear signal is given as follows: the two Averages (Industrials and Transports) undergo a *full secondary* reaction. A rally then ensues, and on the rally one or both Averages fail to record new highs. The next decline is watched carefully. If, on the next decline, both Averages break their secondary lows, a primary bear market is signalled.

The interpretation of the bear signal depends very much on the correct classification of the initial secondary reaction. In my opinion, the decline from the November peaks to the December lows was too slight to be classified as a true secondary reaction. Thus, I do not believe that a bear signal was rendered.

Question: OK, Russell, then what do you call the breaking of the December lows?

Answer: The breaking of the December lows now classifies the secondary trend of the market as down. In other words, the market is now experiencing its first true secondary reaction since August 1982. If, HOWEVER, the Averages (following whatever lows are recorded in the period ahead) rally back for a period of a few weeks or more, and then turn down and break the secondary lows, that will be an ominous occasion. In that case, I would say that we have (1) had a real (full) reaction, (2) had an upward correction of that reaction, (3) seen the reaction lows broken. In that case the primary direction of the market would have turned from bull to bear.

PRIMARY TREND INDEX: The D-J Industrial Average recorded its bull market high of 1287.20 on November 29. The D-J Transportation Average hit its bull market high on November 22 at 612.63 on January 9. The D-J Utility Average recorded its high of 140.70 on October 31. And the advance-decline ratio (a proxy for all NYSE issues) recorded its peak back on June 16, 1983.

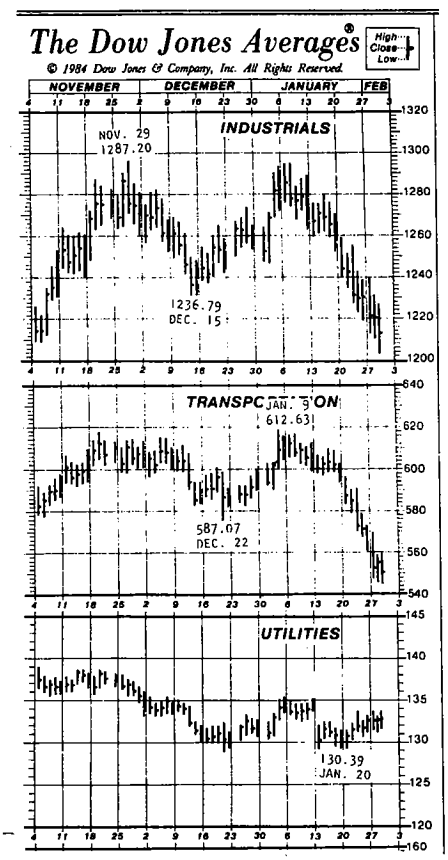
Through all these series of peaks in the various indices, I have had my eyes fastened on my PTI. As veteran readers know, the PTI deals with market action (rather than sentiment indices or monetary factors). The PTI, in other words, deals with what is actually happening on the NYSE. The PTI is an amalgam of eight averages and indices, and it includes everything from advances and declines to bonds to the D-J Industrial Average and even to the broader S & P 500. After watching (I should say scrutinizing) the action of my PTI for the past 13 years, I've learned quite a bit about it.

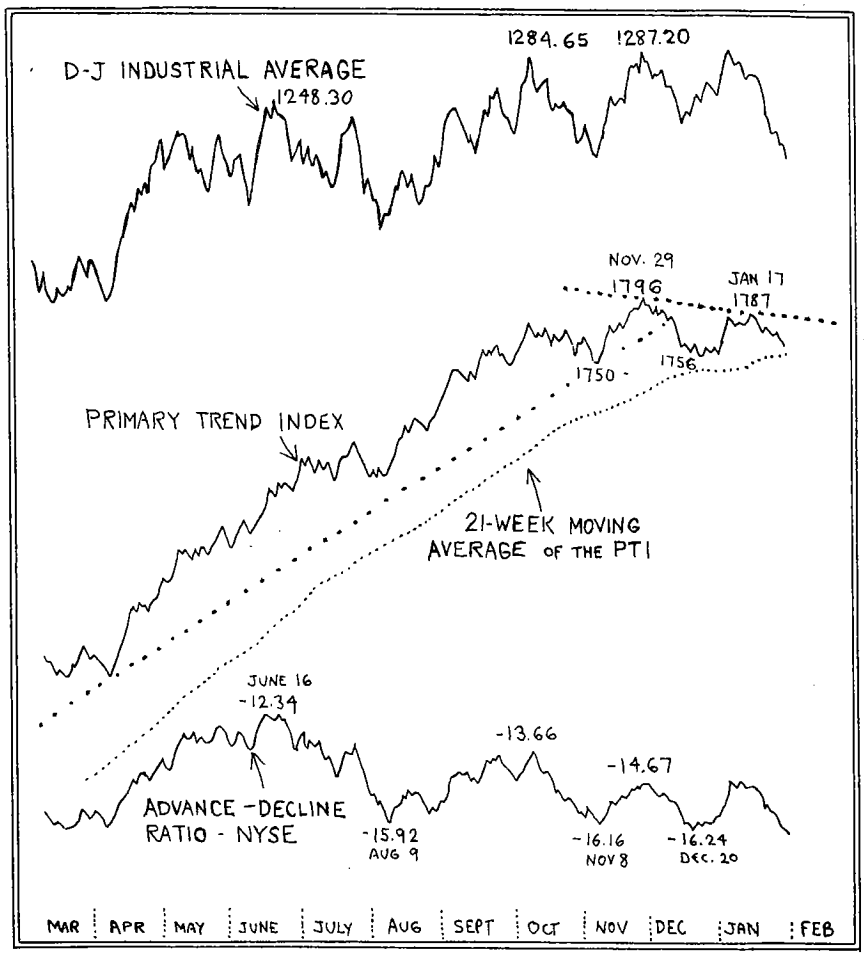
I've learned that it's a particularly good instrument because it is NOT public knowledge. The construction of the PTI is the only secret I retain in this business, and I keep the construction of the PTI secret because I feel that what only a few people know--will probably work in the market.

I've also learned that the PTI cannot be easily "fooled." You can be tricked if you watch only the action of the Dow or only the action of the A-D ratio or only the action of bonds. But it's hard to fool eight items that are computed daily.

I've learned that the PTI can keep me out of trouble. When the PTI is in a rising trend, it's good to be on the bull side of the market. When the PTI is in a declining trend it's well to be out of the market and in T-bills or money market funds (and often, but not necessarily, in gold).

It may not always be this way, but the PTI (for the past 13 years) has traced out remarkably persistent trendlines. To put it another way, the PTI has not been given to whipsaws. If you follow an indicator that puts you in and out of the market every few months or so, then you stand a good chance of being whipsawed and commissioned to death. Figure it out: if you suffer a series of three 10% losses, then you're out about one-third of your





(2) The PTI recorded a bull market high of 1796 on November 29. It recorded a lower peak of 1787 on January 17. Drawing a trendline through those two peaks, it is clear that the trendline is a declining one. This is the first time since the entire rise started in August 1982 that I have been able to draw a declining trendline connecting two peaks in the PTI. In other words, for the first time in 15 months the trend of the PTI is indecisive to negative.

(3) To turn bearish, the PTI would have to continue its decline and break BELOW THE LAST LOW. That low is the 1756 of December 23. The PTI has not done that yet, so the final words on the PTI trend are not in yet (see Late Notes on page 6).

(4) The 21-week moving average of the PTI is a device I use for mechanically classifying the trend of the PTI. If the PTI is above the 21-week MA, I arbitrarily say that the trend of the PTI is up. If it is below the 21-week MA, I conclude that the trend is down. The 21-week MA is now at 1758, 2 points above the December 23 low of 1756. Thus, a breaking below 1756 would rupture both the December low and the 21-week MA. Such action, if it were to occur, would result in my grading the PTI bearish.

(5) So it all boils down to this. The PTI, since November 29, has acted more negatively than at any time since the August 1982 bottom. But the PTI is not bearish yet. What do we do in this instance?

money. And that is something every investor tries (notice that I say "tries") to avoid.

Which brings me to another consideration. Technical analysis and computers are now commonplace. Everybody knows a little about technical analysis and pretty soon everybody is going to have his own computer. But when everybody is using the same methods and when everybody is following the same data, then something new is going to come into vogue on Wall Street. Or at least the correct answer is going to come from another area.

"What other area?" you ask. My answer is that the answers are going to come from intuition and intelligence, the two things that no computer can provide.

I once wrote that the art of technical analysis is knowing what barometers and indices and averages to throw out at any given time. Well, the way things are going we may have to throw out a lot of time-honored methods before this bull market is over.

CURRENT PICTURE: There's an old stock market adage that runs, "The charts are always right, it's the chartists that are wrong." And there is much truth in that adage. There is also frustration in that concept, and I must admit to a lot of personal frustration over the last few weeks. Let me tell you why.

(1) I know that the secret of this market, the secret of the primary trend, is locked into the action of my PTI. But since early October the PTI has been moving sideways. In truth, the PTI is looking toppy, it has traced out a head-and-shoulders pattern, but it has not actually broken down yet.

I am rather frustrated because I can't give a decisive answer at this time. I can only give alternatives, and here they are. (1)You can sit with your stock funds (in other words, don't alter your position) until such time as the PTI gives a definitely bearish signal below its 21-week moving average.

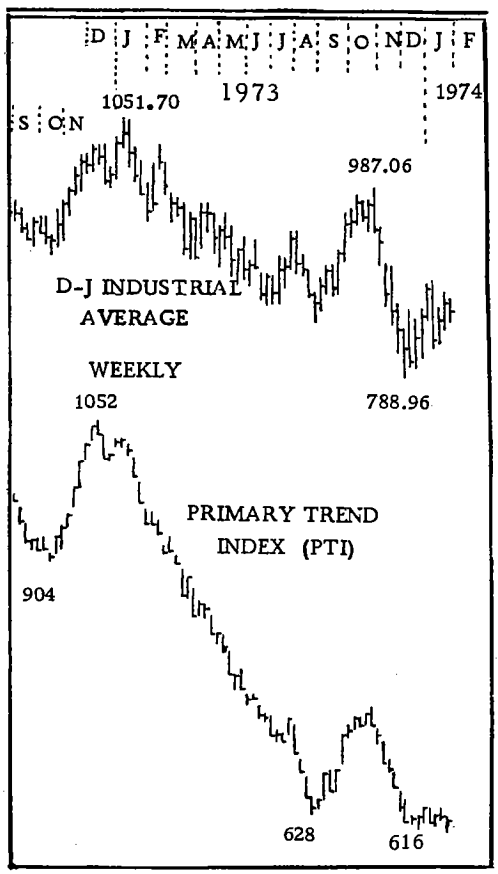
(b) You can switch out of part or all your no-load funds into money market funds (or T-bills) on the basis of the PTI now "looking toppy." If, following your switch, the PTI holds, then turns up and turns bullish, you can always switch back into the stock funds again. I would call this "insurance action." The cost of your switch (assuming the PTI turns clearly bullish) would have to be counted as insurance against a further and probably costly market slide.

Which procedure do I favor? My answer is merely a reflection of my own psyche. I am always willing to pay the cost of insurance by taking a small loss (or by giving up part of a potential gain). Therefore, personally, I opt a modification of procedure "b." I would now switch about half of my no-load funds into a money market fund, while awaiting the final verdict of the PTI. If the PTI breaks, I would switch the remaining half of my stock funds to money market funds. If the PTI turns decisively bullish, I would switch back into my full stock position.

Question: Russell, as you have documented yourself, all the major stock averages together with the A-D ratio appear to have topped out, and all hit their peaks during mid-to late-1983. Yet the PTI has withstood the onslaught. Isn't it possible that there is some kind of built-in bias in the PTI?

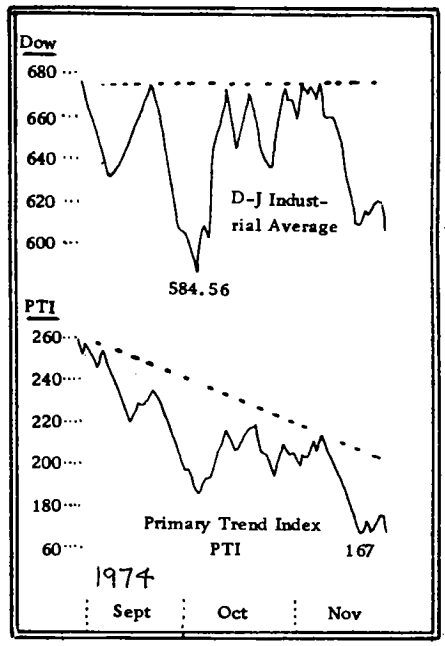
Answer: Whenever the PTI acts at variance with the surface action of the market, I grow suspicious myself. But I've learned to hold my doubts in abeyance. There have just been too many times when the PTI has saved me from rash or foolish actions.

For the benefit of new subscribers, I want to illustrate a period when there seemed to be a downward bias in the PTI. And that was during the bear market of 1973-74 (a time when the PTI "saved my life" on many an occasion). I'm reproducing two charts here from Letters 588 and 616. The weekly chart (from Letter 588) shows what can happen to the PTI during a true primary bear market. Here we see the steady collapse from the December 1972 PTI high of 1052 to the January 1974 low of 616. Hardly an upside bias here!



The second chart from Letter 616 shows some of the daily PTI action during late-1974. Here we see the Dow rallying repeatedly to the 670 resistance area, but all the while the PTI was caught in a vicious downtrend. By December the Dow had fallen to the famous 577.60 low, at which point the 1973-74 bear market ended.

What I am trying to illustrate here is that the PTI is perfectly capable of falling; it is capable of crashing week after week (which is exactly what it did in 1973 and 1974). The PTI has been moving sideways over the last four months–sideways while forming a toppy (head-and-shoulders) pattern. But as to the mystery of why the PIT has not looked worse (in view of recent market surface action), I can only answer that it's the *inner action* of the market which the PTI responds to.



Question: Russell, some analysts (including Joe Granville) believe that we are in a bear market. Is this possible?

Answer: When you're dealing with Wall Street and the stock market, anything is possible. But I have nothing to back the bear market view at this time. If the PTI breaks down, we'll be out of the stock market. If that happens, then as far as my subscribers and I are concerned, it doesn't matter what kind of a market it is. We'll be watching from the sidelines and the bear market question will be academic.

Question: Russell, the short interest ratio on the NYSE has been over 2.10 for five successive months. Shouldn't this be a big plus factor for this market?

Answer: Good question. I've gone back over history and this is what I found. There have been only 12 individual months or cluster of months in which the short interest ratio was over 2.00. *None* of those instances were accompanied or were followed by major stock market declines. In January and again in June of 1982 the SIR went over 2.00. This was the nearest case of an exception. The Dow dropped from a January high of 882 to a March low of 795. Following the June 1982 SIR reading of 2.05 the Dow rallied 53 points to 788 in July, then dropped to 776 in August. From the August low, the Dow exploded to its 1983 high. But in neither case did a bear market follow a reading of over 2.00 in the SIR.

Question: What about daily new lows in today's market?

Answer: I've been watching these carefully. So far, although the A-D ratio hit a 6-month low last week, the greatest number of daily new lows has been 39 recorded on January 30. Of course, new lows would expand if the PTI finally breaks down, but so far there has been a dearth of daily new lows. That's strange action, and it would seem to smack (so far) of rather mild selling pressure.

Question: What else do you see in this market that is worth mentioning?

Answer: In some ways, this is the strangest market decline I've seen in years. I've mentioned the short interest ratio and the lack of daily new lows. Another item to watch is the action of the NYSE Composite Index and also the broad Standard & Poor's 500 Index. Although the D-J Industrials have violated their December low, the NYSE Index and the S & P 500 have not yet confirmed. The December low for the NYSE Index was 93.57, the December low for the S & P 500 was 161.67. It is perhaps the resistance by these two broad indices to breaking their December lows that is responsible for the dearth of daily new lows in the market.

Another item: as of February 2 closing the A-D ratio on the NYSE was down 16 out of 19 days. This is what I term "extreme selling" with declines outnumbering advances on a 4 to 1 ratio for almost three weeks. The market would appear to be oversold.

Question: Why has the PTI been so reluctant to give a bear signal?

Answer: The PTI has been so reluctant to fall apart because so far this decline has been *selective* rather than broad. For instance, the most-active stock index on the NYSE has been *strong* all through the decline. New lows have been sparce. The S & P 500 and the NYSE Composite have been resistant to the downside. And the Utility Average (see page 2 chart) has been trying to base. All this is taken into account by the PTI. It is just these things that the PTI gauges.

Question: Russell, what kind of fundamentals could be responsible for the current market slide?

Answer: In my opinion, the answer to that question is contained in the following statement. If you buy one of the new "stripped" Treasury bonds (TIGERS, CATS, LIONS, etc.) for $80, in twenty years that bond will be worth $1,000 (assuming you hold it in a tax deferred pension or IRA account). To compete the Dow would have to be 9500 at end of the same twenty years. In other words, bonds are now awfully attractive at yields of near 12% compared with stocks with yields of around 5%. And this is particularly true in today's non-inflationary environment.

Question: Why the devil are high-grade Treasury bonds yielding near 12% in a non-inflationary environment?

Answer: It's the Federal deficits, not inflation, that are keeping bond yields high. The continual monster Federal deficit is squeezing the markets in a death grip. And for the first time in modern history, it's the markets that are taking over–literally dictating to the politicians what they can and cannot do! That is why I introduced the concept of a 5% national sales tax. That idea, if it were put into place, would turn this nation around. And that's why I have recommended it so strongly in recent Letters. This country has simply got to stop the nonsense; we've got to get into economic reality.

Question: The dollar has weakened over the last week and gold has popped almost $20. Is that a hint that the Fed is going to ease?

Answer: Fed Chairman Volcker is on a fantastic tightrope. He knows that the country is moving towards a slowdown (or even a recession) in 1984. If he keeps the brakes on, the danger of recession increases (a "no-no" in an election year). But if Volcker eases up, the markets will scream inflation, bonds will swoon, and interest rates will climb (putting even more of a squeeze on stocks and the economy). In other words, Volcker is walking a fine line. He has little room to maneuver. That's what the huge deficits have done, and the markets know it. The money markets have become very sophisticated. There is only one fundamental remedy for all this. This nation has got to pay for what it spends. That means eliminating the deficits-and soon!

MARKET POSITION: The bull is still in the box. I haven't received a Dow Theory bear signal. The PTI has not yet given a bear signal. The various alternatives for investors have been discussed in the preceding section. I like the action of the bonds here. I think Washington will be forced to take drastic action on the deficits–it's only a matter of time. The most liquid of longer term bonds are the Treasury bonds. At near 12% yields, you get one-third of your money back in three years.

More Super losers: Wall Stree

Special for USA TODAY

Las Vegas bookmakers and Wall Street joined the Washington Redskins as Super Bowl XVIII losers.

The Redskins lost 38-9 Sunday to the Los Angeles Raiders.

■ Wall Street had its worst oss Monday in 12 weeks, right on track with a Super Bowl theory that's been right for 17 years — since Super Bowl I.

The theory holds that when an original American Football League team — such as the Raiders — wins, the market heads down for the year. It goes up when an original National Football League team, such as Washington, wins.

"Although they wouldn't admit it, a lot of investors are superstitious and they sold because the Los Angeles Raiders won in the Super Bowl," said Trude Latimer of Evans & Co.

■ Nevada bookmakers said they lost millions in near-record wagering. Most bettors went with the Raiders, thr point underdogs.

"It was the largest sin event we ever booked her said Jimmy Vaccaro of t Barbary Coast Sports Book. was also the biggest single l we took — in the large six- ure bracket."

Sonny Reizner of Castaw

GIMMICKS: With a record 42 million stockholders in this market, it can be expected that rumors, gimmicks, formulas and theories will rule the short term. Over the last month we saw two of the biggest "gimmick formulas" in action, the "Super Bowl formula" and the "Santa Claus" and the "first five days" and the "as January goes, so goes the year" recipes.

Let's take the Super Bowl gimmick. This theory states that if an NFL team such as Washington wins the Bowl, the market is up for the year. If an original AFL team wins such as the Raiders, Wall Street faces a down year. This concept has held for 17 years since Super Bowl.

The Super Bowl gimmick is now so widely followed that it actually made the headlines in the 1.3 million circulation USA Today newspaper on January 24 (see above).

But the theory that the outcome of the Super Bowl could affect or forecast the trend of stock is absurd on the face of it. The fact is that if you took thousands of series (Presidents' birth dates, salmon spawning records, star positions, etc.) you would sooner or later find one that jibed with some other series which had no relation to the first series. It's simply the law of chance. It's another way of saying that if a monkey sat down on a typewriter for all eternity eventually he would type out the encyclopedia word for word.

But here's the interesting part of it. The longer you stretch two totally different series (even though they jibe coincidentally) the nearer you are to getting your first "error." To put it another

way, the series of coincidences becomes MORE STRAINED each time it is correct.

I've often used this same concept in relation to market action. For instance, when a market heads down for weeks and months you know it is getting closer and closer to a good rally (rather than closer to more extended downside action). Or as Robert Rhea used to say, "Every 10 points down is 10 points nearer the bottom."

So my own feeling is that the Super Bowl "prediction" is now closer to being wrong than at any time in the last 17 years. Why? Because it has coincidentally jibed with the market for a long time, and (now, particularly in 1984) because it has received such wide publicity. In fact, I really think that the Raiders' win on Sunday, January 22 was a contributing force to the 14 point Dow drop on January 23.

NOTICE: The 1983 pages for the market chartbooks will be ready in a few weeks. The 1983 Dow page shows the *daily* price action of the Dow Industrials, Transports, Utilities and bonds together with daily NYSE volume. Significant price levels are included and major news events are noted. The 1983 A-D page shows the daily Dow with the daily A-D ratio movements, together with major price and value levels. As far as I know, nobody else offers charts of this type and these charts are invaluable as a market laboratory and as an historical record. Price is $2 for each or $4 for both. My thanks to John Strebler for drawing the charts.

NOTES & QUOTES: I want to thank all those subscribers who wrote to me regarding my idea of a 5% national sales tax. Letters were written to Congressmen, some subscribers spoke to Senators and others (so I am led to believe) got directly to the White House. One objection to the plan was that "the politicians will simply spend any new money that comes in, no matter what the amount." The solution to this is easy–make it mandatory that all money that comes to the Treasury via the 5% sales tax goes to pay off the debt.

Let's face it, we voted in the politicians who were responsible for the monster deficits. We never voted out these spendthrifts. The writing was on the wall and has been for years. Now suddenly, everybody is warning about the deficits. They are OUR DEFICITS, OUR DEBTS. We never told the spenders in Washington, "Halt this program, stop the spending or we'll vote you out." No, we encouraged the spending with our votes or lack of votes. Now let's address the problem. Let's pay for what we spend!

A national 5% sales tax would virtually eliminate the deficit. All the income from such a tax must go towards eliminating the deficit. It's OUR PROBLEM, it won't go away. I say, let's get the job done before the situation turns into a snowballing disaster.

* *

I've said it before and I'll repeat it. The Soviets want to prove that Communism is the "wave of the future," and they want to prove it via economics–with the world's biggest military machine backing their economic machine. Ponder this from the Jan. 30 *NY Times:*

Special to The New York Times

BREMEN, West Germany — Although the lumbering freighter on the Weser River was registered in Leningrad, its load of dark beans, destined for the huge silos of local coffee roasters, came from the Caribbean.

A decade ago, Soviet freighters were rarely seen in German ports. But the rock-bottom rates of East-bloc merchant ships, mainly from the Soviet Union, have won them a widening share of seaborne traffic in Germany and throughout Europe.

Indeed, European business and government leaders are growing increasingly alarmed at the Soviet inroads, which, they say, are crushing European shipowners already hurt by a worldwide transportation recession, high fuel prices and bitter competition among themselves.

Moreover, European national security officials say, an expanding role for Russian shipping tends to heighten dependence on the Soviet Union for the transport of critical cargos. And, they add, it provides an easy entry into major ports for large numbers of Soviet trade and consular officials who may take part in intelligence-gathering activities.

"The Soviets operate without paying attention to costs," said Ralf Schneider, a spokesman for the Association of German Shipowners. "Competition is impossible."

* *

How's this for a fantastic acronymn? And what are the odds on this ever occurring again? Iacocca. I-A-C-O-C-C-A. I am Chairman of Chrysler Corporation of America.

* *

Not everybody loves the decline in inflation. For instance, many lumber companies, as noted in this NY Times piece (Jan. 29).

Special to The New York Times

PORTLAND, Ore., Jan. 26 — On the timbered slopes of the Pacific Northwest, lumber companies are grieving this winter about the demise of high inflation in America. They contracted to pay more than $5 billion for Federal- and state-owned uncut timber that they say is now worth less than $3 billion.

The timber companies agreed to buy the trees in a period of speculation in the late 1970's when the inflation rate was running at more than 10 percent a year. They said they expected a boom in home building then under way to continue for years and cause lumber prices to skyrocket in the 1980's.

Instead, the price of lumber has fallen 60 percent since 1979, the boom in housing collapsed abruptly and the lumber companies are trying to invalidate their contracts with the Federal Government and have been increasingly defaulting on contracts for timber on state land. Although the companies have contracts with the state governments in Washington and Oregon, the vast majority of the timber contracts are with the Federal Government.

Reserve Board Blamed

The companies say the Government, through the economic policies of the Federal Reserve Board, is to blame for the collapse of the housing market, and, in turn, for their financial problems. Critics of the industry argue that the companies made their own problems by imprudent speculation and insist they live up to the contracts.

BEING RIGHT: With the rise of computers and stock market volume and sheer numbers of brokers and stockholders (the latter to the tune of 42 million), competition for new investment money and for market performance has reached almost hysterical levels. I've been in this business for a quarter of a century, so I guess I'm entitled to write this. And what I'm writing is aimed at subscribers, brokers (and almost every major brokerage house library subscribes to these reports) and to other investment services.

Whenever TOO MANY people try to beat the market, the market gets downright nasty. I think this is one of those times. In my opinion, there are just too many people eager to take money out of Wall Street today. Most of them are going to be frustrated. Most of them are going to be pulling their hair out before it's all over.

One of the things we all have to face in the market (especially in times like these) is that we're going to be making mistakes, we're going to be wrong at times. That's how Wall Street keeps us humble. Sometimes you'll have to just say, "I don't know." At times you'll have to pull out, sit on the sidelines and scratch your head. And at still other times you'll have to do what most amateurs find so hard to do, take a small loss to avoid a possible much bigger loss. I think I'm too ready to take small losses. But I also feel that most people are too reluctant to take any kind of loss–and that leads to potential disasters somewhere down the line.

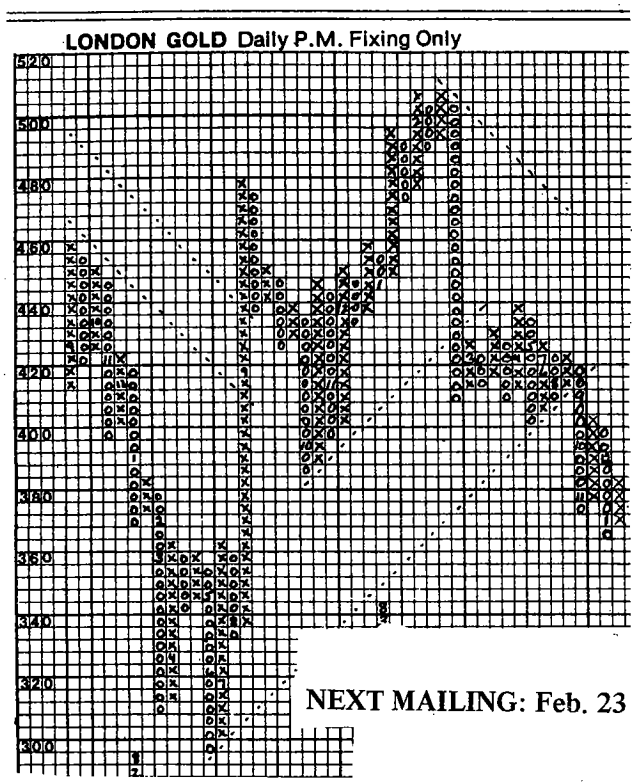
As to the investment services, I sense a kind of frantic-ness in many of them at this time. They want to be right–on the big picture, the secondary picture, the daily picture. They want to call every turn. It can't be done. And if you are good enough to do it for a while, you can't keep it up.

I've had to develop a "staying alive" philosophy in this business. I've had to develop it because if you're going to stay alive in Wall Street for 25 years or more (which I've done) you've got to be able to relax, to roll with the punches, to smile at your own occasional stupidity. I've learned to do all three (even though I still suffer occasional sleepless nights).

So allow yourself to be wrong, but don't allow yourself to stay wrong. Take it easy on yourself. Don't try to be a "market genius" (it's been tried and at best, it only lasts a short while). And develop patience. The market will be here a long, long time. You try to do the same.

1984: I've often quoted *Industry Forecast,* written by David and S. J. Levy, Box 26, Chappaqua, NY 10514. This forecast (from the years I've followed it) has one of the very best records in the business. Their latest report is interesting. Highlights: "1984 will witness minimal inflation. . . . . Last year's strong profit rise continued in the fourth quarter. That rise is ending. . . . Most stores will experience increasing difficulty moving spring and summer merchandise. . . . Later this year, short-term yields will be at least 2% points below present rates. . . . The chances are that the US will avoid another recession in 1984. Nevertheless, one threatens."

I don't know how much of this represents contrary opinion, but much of it does fly in the face of the optimistic economic reports for 1984. It seems to me that the stock market during 1984 will have to contend with two opposing forces (assuming, of course, that what the Levys predict comes to pass). The first is that recessionary forces will have a depressing effect on the market in 1984. But declining interest rates will have a positive effect. So how the market chooses to deal with 1984 continues to remain a mystery.



GOLD: The inevitable has occurred. The dollar has tumbled against the foreign currencies. Is this the beginning of the long-heralded bear market for the dollar? I'm not convinced. But gold has popped, and the gold shares have positively (almost greedily) catapulted upwards. On the point & figure chart nothing has been proved yet. But at 408 spot price, the chart would give a first bullish signal. The moving averages offer some encouragement. The 13-week MA for gold is 381 and the 50-week MA (both MAs are exponential) is 404. Thus, as I see it, the 404-408 zone for gold is an important one. Pushing above 408, the precious metal might be telling us something.

What would it be telling us? In my opinion, it would be telling us that Mr. Volcker is pressing some monetary buttons in an attempt to avoid recessionary tendencies in the economy. (Gold chart courtesy of Chartcraft, Larchmont, NY).

LATE NOTE: (Feb. 6 at the close). The PTI ended up today breaking its head-and-shoulders base and falling below the 21-week moving average. It is our fail-safe signal and it calls for a move out of no-load funds and into money market funds. The market would "seem to be" over-sold at this juncture, but unless or until the PTI betters the last peak at 1787, we are in a sell mode for stocks.

LAST MINUTE BULLETIN
LETTER 880
FEBRUARY 8, 1984

PRIDE AND SOLVENCY: Everyone is familiar with the ancient Chinese creation known as the water torture. In this fiendish plan, the victim was tied down and water was allowed to drop on his forehead, drop after drop, day after day. Within a week or so the hapless victim would go mad.

This is the game that I've seen many investors and advisors play in the stock market. They sit with their stocks through a long (often tortuous) decline, and they never sell--until the bottom. Why do they sell at the bottom? They sell then because that's when fear finally envelopes them, and they can't stand the Chinese water torture any longer.

All right, and why do some advisors allow themselves to stay wrong month after month, in effect subjecting themselves to the horrors of the Chinese torture game? The answer is pride of opinion. These advisors would rather be right than revising their opinion (in effect, admitting that they were wrong). I've done it both ways. In earlier times I've stayed wrong, and I've also revised my opinion and put myself on the right side of the market.

There's a paradox about being a so-called investment advisor. The paradox is that you have to have the boldness (chutzpah) to think you know more about the market than other people. And yet you must have the humility to let the MARKET TELL YOU what is going on.

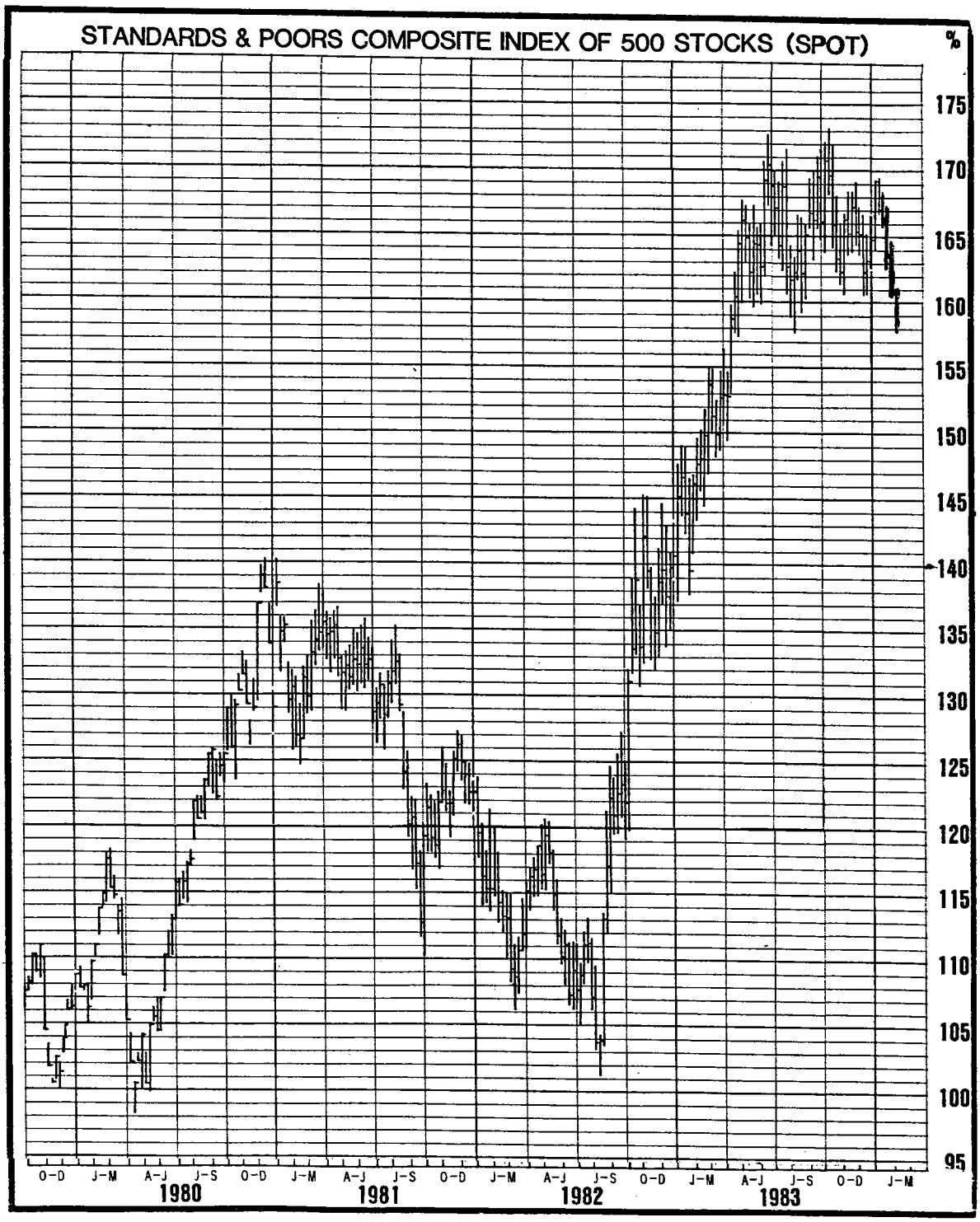
So the question arises, "Russell, after being bullish for months on end right up to early February 1984, why did you issue a sell signal for all stocks and no-load stock funds?" The answer is simple. I love to be right. I love to issue forecasts that look brilliant in the light of history. But I'm far more interested in keeping my subscribers on the right side of the market, and if my pride has to suffer, so be it.

Next question: "Russell, how can we sell here? The markets have been hit very hard, wouldn't it be smarter to wait for the inevitable rally?" My answer is that I don't know how smart it would be to wait because I don't know where the next rally will come from. But I do know that I don't want to out-guess my Primary Trend Index (PTI).

The PTI (see p. 6 "Late Notes") broke down below its final support on February 6. The break was rendered even more decisive on February 7. This is my fail-safe signal, based on the action of the PTI which in turn is based on an amalgam of eight critical indices and averages. Judging from past PTI action, I would say that the bearish trend which the PTI is now locked into will not be a trivial or short affair.

I want to include this weekly chart (reverse side of this page) of the broad Standard & Poor's 500 Stocks Index (chart courtesy of Commodity Research Bureau). You can see the massive "congestion" area which actually started formation in the second quarter of 1983. I viewed this sideways action (hopefully) as an accumulation area, and I operated on the basis that the market would move out from this area on the upside. I was wrong. The PTI has told me that I was wrong.

So the fact we have to face is that the market is now coming down from a huge top. In fact, if you sell now you may look back six months from now and say, "I sold in February, I sold at the top!" The disheartening fact is that (1) the market, based on this chart, could have a long way to go on the downside--we just don't know. (2) This could be a primary bear market, and if the August lows in the D-J Industrials and Transports are broken (1163.06 and 524.02) a Dow Theory bear signal will be given in my opinion.



What does all this mean for my subscribers? It means that this abbreviated report is simply emphasizing what I stated at the end of page 6 of this Letter. The time has come to protect assets, and that means being out of stocks and on the sidelines via Treasury bills, cash, or money market funds.